

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6412

BILL NUMBER: HB 1169

NOTE PREPARED: Feb 18, 2003

BILL AMENDED:

SUBJECT: TRF COLAs and "thirteenth checks".

FIRST AUTHOR: Rep. Herrell

FIRST SPONSOR:

BILL STATUS: As Passed - House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a cost of living adjustment (COLA) and a supplemental "thirteenth check" for members of the Teachers Retirement Fund (TRF) (or their survivors or beneficiaries) for 2004 and 2005.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The following tables describe the increase in unfunded liabilities and annual payouts required by the bill. The fund affected for the Closed Plan is the state General Fund. The New Plan is actuarially funded by a level percent applied to covered payroll. Currently, the percent is 9%. It is unlikely that the 9% will be increased to fund the provisions of this proposal.

COLA Provision:

| | Closed Plan | | |
|--|--------------|--------------|---------------|
| | FY 2004 | FY 2005 | FY 2006 |
| Increase in Unfunded Accrued Liability | \$27,352,776 | \$82,710,522 | \$110,715,491 |
| Increase in Annual Payouts | \$3,205,798 | \$6,467,453 | \$12,934,905 |

| | New Plan | | |
|--|-----------------|----------------|----------------|
| | FY 2004 | FY 2005 | FY 2006 |
| Increase in Unfunded Accrued Liability | \$53,607 | \$180,555 | \$253,894 |
| Increase in Annual Payouts | \$5,331 | \$17,779 | \$24,894 |

| | Combined Closed and New Plan (COLA Provision) | | |
|--|--|----------------|----------------|
| | FY 2004 | FY 2005 | FY 2006 |
| Increase in Unfunded Accrued Liability | \$27,406,383 | \$82,891,077 | \$110,969,385 |
| Increase in Annual Payouts | \$3,211,129 | \$6,485,232 | \$12,959,799 |

The above data represent the effective dates of the COLAs of January 1, 2003, and January 1, 2004.

13th Check Provision:

The bill also provides a “thirteenth check” to retired members, which will affect the Annuity Reserve Account. The total amount to be distributed is equal to 10% of the difference between the balance in the Annuity Reserve Account as of June 30, 2002, and the computed liability of the Account as of the same date. The amount of the “thirteenth check” does not affect the pension portion of the monthly benefit and is payable to members who had retired as of July 2, 2002 (and July 2, 2003, respectively), and who were eligible to receive a monthly benefit as of October 1, 2003 (and October 1, 2004, respectively). The individual distribution is to be determined for each eligible retiree by formula with a minimum payment of \$50. These checks are payable November 1, 2003, and November 1, 2004.

The balance in the Annuity Reserve Account as of June 30, 2002, was \$566,219,184, while the computed liability of the Account amounted to \$608,765,022, a negative balance of \$42,545,838. It is likely that a similar condition will prevail as of June 30, 2003. The table below shows the impact of the 13th check provision based on the minimum payment of \$50..

| Closed Plan | Increase in Unfunded Accrued Liability | Increase in Payouts as of 11/1/2003 and 11/1/2004 Respectively |
|--------------------------------|---|---|
| November 1, 2003, Check | \$1,572,151 | \$1,731,300 |
| <u>November 1, 2004, Check</u> | <u>\$1,504,196</u> | <u>\$1,780,700</u> |
| Total | \$3,076,347 | \$3,512,000 |
| New Plan | | |
| November 1, 2003, Check | \$5,857 | \$6,450 |
| <u>November 1, 2004, Check</u> | <u>\$8,447</u> | <u>\$10,000</u> |
| Total | \$14,304 | \$16,450 |
| Total (Both Plans) | \$3,090,651 | \$3,528,450 |

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*. The data represents the effective dates of the COLAs of January 1, 2003, and January 1, 2004.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations.

Information Sources: Brian Dunn of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS:

Cost of Living Adjustment: An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Thirteenth Check: An annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.